The BUFFALO OIL *Corporation*

2004
Annual Report to Shareholders

corporate profile

The Buffalo Oil Corporation (the "Company") is an emerging junior oil and gas company engaged in the exploration, development and production of oil and gas reserves in Alberta and Saskatchewan. The Company currently has 13.2 million common shares outstanding that trade on the TSX Venture Exchange under the symbol "BFO".

Buffalo was formed on December 17, 2004 with

- A highly motivated and experienced management team
- Daily production of approximately 350 boe per day
- Access to 59,000 gross acres of prospective undeveloped land
- Three focus areas that provide a range of exploration and development opportunities from low risk to high risk/high impact

ANNUAL MEETING

The Annual General Meeting of the Shareholders of The Buffalo Oil Corporation will be held at 11.30 am on June 29, 2005 at the offices of McCarthy Tétrault LLP, Suite 3300, 421 – 7th Avenue S.W., Calgary, Alberta. All shareholders are invited to attend and those who are unable to attend are encouraged to complete and return the enclosed proxy form.

BFO

letter to shareholders

It is my pleasure to present this first letter to the shareholders of The Buffalo Oil Corporation.

History

The Buffalo Oil Corporation was formed on December 17, 2004 by the combination of Fogo Resources Inc. and Buffalo Oil Company Limited, a public Saskatchewan company. Fogo, a private Alberta company, was founded in 2002 by the Company's Chairman and CEO, Bill Trickett. Fogo had producing oil and gas assets in central Alberta and excellent undeveloped land positions at Frog Lake in northeast Alberta near the Saskatchewan border and in the Peace River Arch area of northern Alberta.

Buffalo Oil Company Limited was founded in 1992 by Glenn E. Newhouse when The Combined Larder Mines, Limited, an Ontario company founded in 1911, merged with Buffalo Oil Company Limited. Buffalo operated exclusively in southeast Saskatchewan and had producing properties at Heward and Alameda.

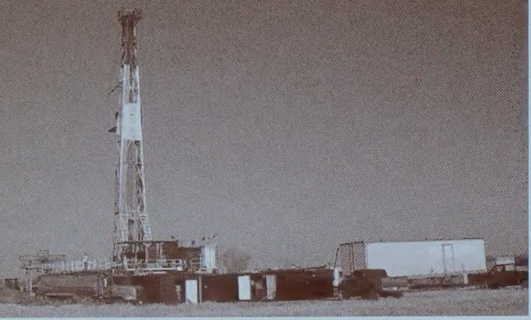
Glenn managed the Buffalo Oil Company Limited from its Regina offices until March 30, 2004. Sadly, Glenn passed away on August 14, 2004 after a prolonged illness. We would like to dedicate this first annual report of The Buffalo Oil Corporation to the memory of Glenn E. Newhouse, a Saskatchewan oilman and rancher.

In Memorium
Glenn Newhouse
June 7, 1947 – August 14, 2004

New team

I am pleased that some of the original investors in Fogo Resources Inc. have chosen to participate with the Company as members of the Board of Directors. The Board consists of Ted Bogle, Vice President, International Portfolio Management of Nexen Inc.; Doug Hunter, Chairman of Viking Energy Royalty Trust; Greg Moore, Vice President, Operations of Shiningbank Energy Income Fund; Richard Shaw, Senior Partner of McCarthy Tétrault LLP, and myself. Buffalo is fortunate as a start-up company to have such distinguished and experienced individuals to guide the Company.

Over the past two years we have developed a special working relationship with the Frog Lake First Nation. At Frog Lake, Buffalo has access to in excess of 38,000 acres of land through farm-in and participation agreements with Frog Lake Energy Resources Corp., a company wholly-owned by the Frog Lake First Nation. Buffalo has invited the Chief and Council of the Frog Lake First Nation to nominate a candidate for the Company's Board of Directors.



Buffalo has a new management team, with more than 25 years of experience each, providing well rounded exploration expertise throughout the Western Canadian Sedimentary Basin, consisting of Trevor Penford, President & CFO; Duane Domier, Vice President, Operations & COO; Denis Kennedy, Vice President, Exploration; Ken Robinson, Manager, Land.

The Company is fortunate to have attracted this highly motivated and experienced team.

Strategy for growth

Our plan for growth is simple but well tested. The backbone of the Company's growth will be internally generated through the drill-bit, on the existing land base in three core areas:

- Frog Lake, Alberta – low risk development of heavy oil and natural gas.
- Southeast Saskatchewan – medium risk drilling for light oil.
- Peace River Arch, Alberta – higher risk/high reward, multi-zone exploration for natural gas and light oil.

Frog Lake and southeast Saskatchewan properties will provide the stable cash flows that allow the Company to pursue high impact exploration plays in the Peace River Arch.

Acquisitions of producing properties are an important part of Buffalo's strategy and will be considered where they complement and expand the asset base and in-house technical expertise and where they are accretive.

Achievements to date

- December 17, 2004, received shareholder approval to amalgamate.
- Began trading on the TSX Venture Exchange on January 20, 2005 under the symbol "BFO".
- Interests in and access to in excess of 59,000 (27,000 net) acres of undeveloped land.
- Proved plus probable reserves totalling 730 Mboe, with a reserve life index of 5.7 years.
- March 14, 2005, completed private placement of $5.9 million through the issue of 4.1 million common shares at $1.20 each and 0.7 million flow-through shares at $1.45 each.
- Average production rate of 355 boe per day for the first quarter 2005.

Highly motivated and experienced team

Governance

Buffalo takes seriously its corporate governance responsibilities to shareholders. As such, we have put into place the systems and controls that give us confidence in the quality and accuracy of our public disclosures and documents.

The Buffalo Board of Directors is composed primarily of independent directors and includes only one member of management. Reserves, Audit and Governance and Compensation Committees of the Board, have been formed that consist entirely of independent directors. These committees will meet regularly throughout the year.

Outlook

Buffalo's solid foundation provides an excellent platform for adding value. The Company is a well-financed start-up with a seasoned management team, an experienced Board of Directors, a large land base and an excellent inventory of drilling prospects. The combination of low risk with high risk/high impact prospects should position the Company for rapid growth in production, reserves and shareholder value.

Buffalo has established a $10 million capital program for 2005 that includes drilling 33 wells – 4 wells (2.1 net) in the Peace River Arch, 3 wells (1.2 net) in southeast Saskatchewan and 26 wells (6.6 net) at Frog Lake. Buffalo is targeting a 2005 year-end exit production rate of 1,000 boe per day and anticipates 2005 cash flow in the order of $3.6 million.

Acknowledgements

I wish to thank the members of the Board of Directors, the management team and our various partners and advisors for their commitment to the Company, as well as to the many investors who have joined us since our inception. We look forward to building the Company for the benefit of all.

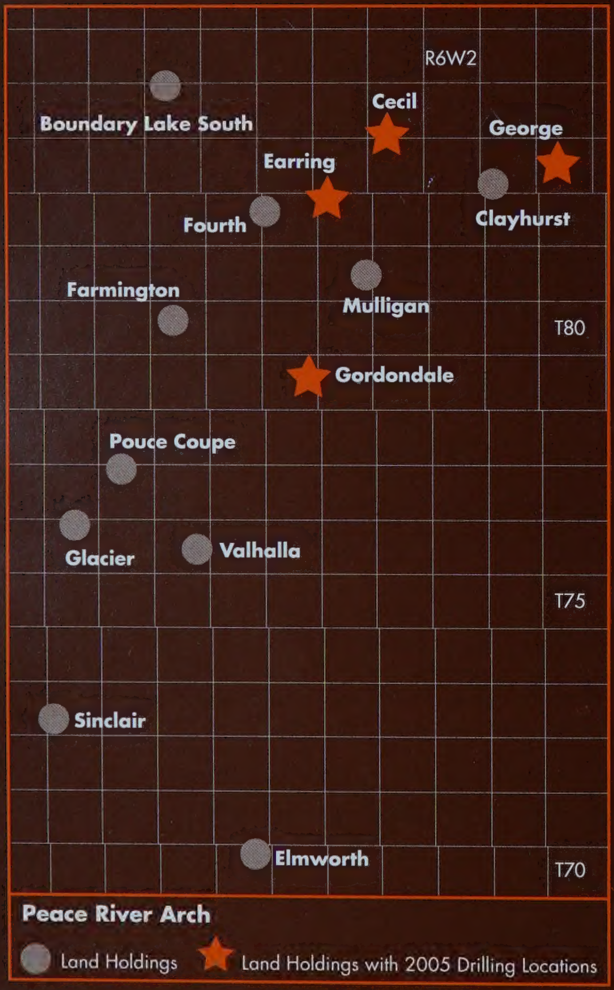
On behalf of the Board of Directors

William (Bill) Trickett
Chairman and Chief Executive Officer

May 27, 2005

operations and exploration overview

Buffalo has established three core areas with a significant land base and high working interest participation.



Peace River Arch, Alberta

The Peace River Arch, north and west of Grande Prairie Alberta, is highly prospective with multi-zone drilling targets for both natural gas and light oil. There is a significant amount of infrastructure in place and excellent seismic coverage. Buffalo has 16 parcels containing 13,000 gross acres of undeveloped land at an average 77% working interest. Many of the properties are offset by producing oil and gas wells. Buffalo anticipates drilling four wells (2.1 net) in the Peace River Arch in 2005.

The first well has been licensed at Cecil where Buffalo holds a 55% working interest in five sections of land. This well, targeting the Kiskatinaw formation, is expected to spud before the end of June 2005. Additional drillable prospects have been identified at Earring, George and Gordondale.

Frog Lake, Alberta

Sandwiched between two prolific heavy oil fields, the Lindberg Grand Rapids field on the west and the John Lake Grand Rapids field on the east, the traditional lands of the Frog Lake First Nation lie directly in the cretaceous sand fairway. The lands are prospective for McLaren, GP, Sparky and Rex oil and for Viking and Colony gas, all at depths of less than 600 metres.

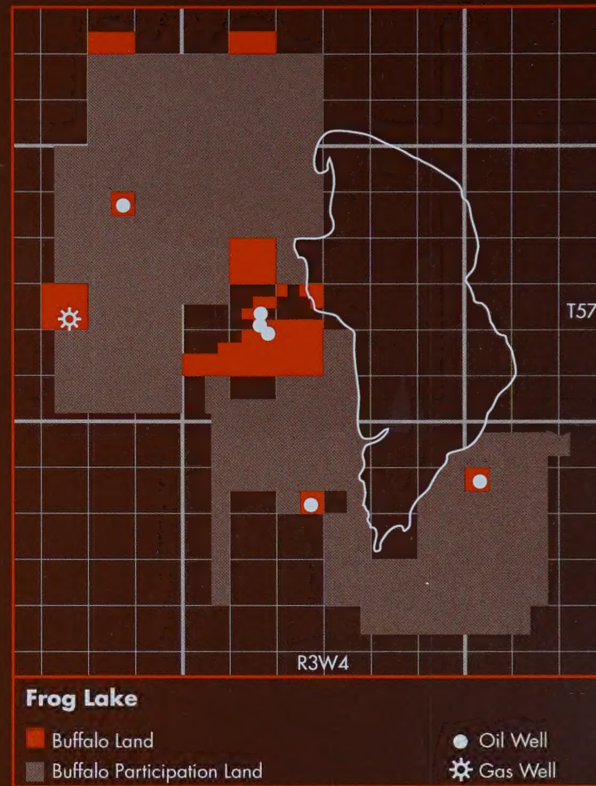
The Company has farm-in agreements covering 2,800 acres of undeveloped land. In 2004, Buffalo drilled three (2.4 net) successful oil wells on these lands, two of which were completed in the first quarter of 2005. These well encountered the McLaren zone finding productive intervals of between 15 and 19 metres and are currently producing at rates of 50 to 60 barrels of heavy oil per day. Buffalo is operator of two of the wells. Extensive 2-D seismic coverage exists over most of this farm-in area. Buffalo expects to drill three additional wells on these lands in 2005 (3.0 net).

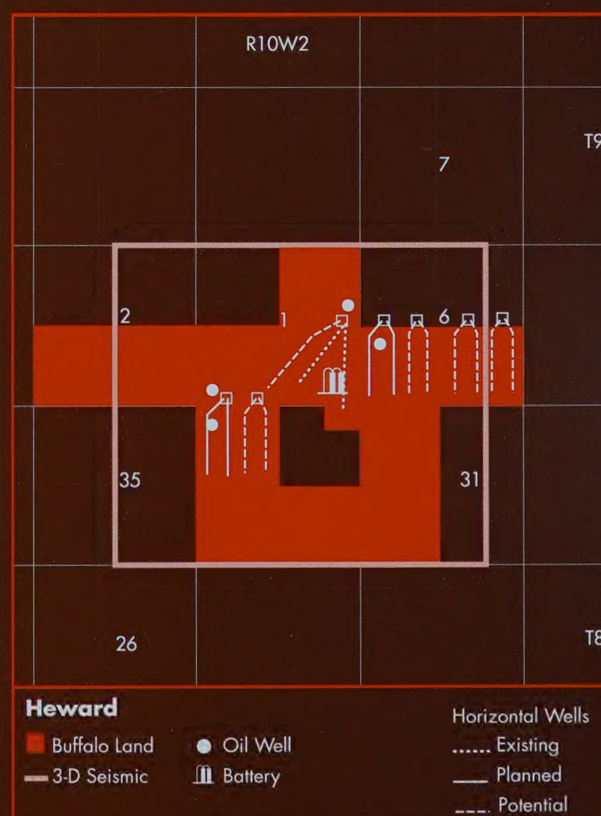
In addition, Buffalo has an agreement with Frog Lake Energy Resources Corp. giving it the right to participate up to a 25% working interest (37.5% in gas wells) in wells drilled by another operator on Frog Lake Reserve lands. This agreement allows Buffalo to invest at least $2.5 million and covers an area of approximately 35,000 gross acres of undeveloped land. In 2004, Buffalo participated in drilling two successful GP/Sparky oil wells and a Colony gas well on these lands. The 2005 capital program includes drilling 23 wells (3.6 net) at Frog Lake under this agreement.

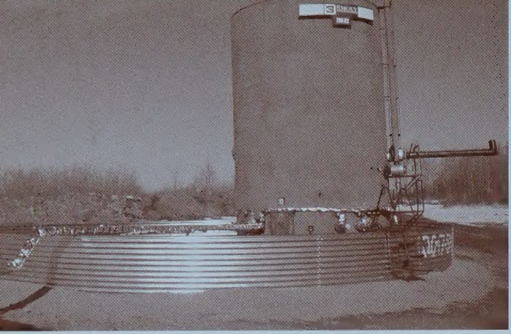
Southeast Saskatchewan

The Company has properties at Heward and Alameda which produce light oil from the Midale and Frobisher formations. Buffalo's net share of current production is approximately 65 boe per day from the area.

Buffalo has a 52% working interest in five oil wells producing from the Frobisher formation at Heward. There is potential to drill between two and six multi-leg horizontal wells on the property. The first well is scheduled to be drilled in the third quarter of 2005.








At Alameda, Buffalo has an average 80% working interest in eight producing oil wells which are produced through three operated oil batteries. These assets are very mature, however in light of the current high oil prices, Buffalo is reviewing a number of shut-in and low production rate wells for potential re-completion or re-drilling as horizontal wells.

Buffalo has a 47% working interest in approximately 3,000 undeveloped acres of land in southeast Saskatchewan. One well at each of Ingoldsby and Queensdale is budgeted for drilling in 2005. The Ingoldsby well was drilled as a two-leg horizontal in the second quarter 2005 and is currently being completed as an oil well in the Alida formation (net 19%). Plans are to drill a horizontal well in the Frobisher formation at Queensdale in the fall of 2005.

Other Operations

- Fort Saskatchewan – Buffalo operates and holds a 100% working interest in two gas wells that produce from the Viking formation, located 20 miles north of Edmonton, Alberta in the Fort Saskatchewan field.
- Gilby/Rimbey – Buffalo owns various interests ranging from an overriding royalty position of 5% in one well to working interests ranging from 15% to 50% in six producing natural gas wells, three producing oil wells and one suspended oil well, all located 65 miles southwest of Edmonton, Alberta in the Gilby/Rimbey area. These wells and facilities are operated by partners and the production is processed at third party facilities.
- Westlock – Located 45 miles northwest of Edmonton, Alberta in the Westlock field, Buffalo owns a 100% working interest in two Viking gas wells. Buffalo is the operator of the wells and facilities.

Total reserve life index is 4.5 years

Oil and Gas Reserves

Buffalo's oil and gas reserves were evaluated by the independent engineering firm of Paddock Lindstrom & Associates Ltd. ("PLA") effective December 31, 2004 using the PLA price forecast as of January 1, 2005. Oil and gas reserves at December 31, 2004 are as follows:

	Light & Medium Crude Oil & NGL's		Heavy Oil		Natural Gas		Barrels of Oil Equivalent	
Reserves Category	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(Mbbl)	(Mbbl)	(Mbbl)	(Mbbl)	(MMcf)	(MMcf)	(Mboe)	(Mboe)
Proved Developed Producing	177.8	153.0	18.0	14.8	1,365.9	1,239.2	423.4	374.3
Proved Developed Non-Producing	0.5	0.5	–	–	62.7	157.2	11.0	26.7
Proved Undeveloped	–	–	101.8	81.2	–	–	101.8	81.2
Total Proved	178.3	153.5	119.8	96.0	1,428.6	1,396.4	536.2	482.2
Probable Additional	66.6	58.8	55.4	46.4	428.6	427.7	193.4	176.5
Total Proved Plus Probable	244.9	212.3	175.2	142.4	1,857.2	1,824.1	729.6	658.7

Based on forecast production for the year 2005 as determined by PLA, Buffalo's total proved reserve life index is 4.5 years and its total proved plus probable reserve life index is 5.7 years.

The present value of Buffalo's oil and gas reserves at December 31, 2004, discounted at the rates shown, is as follows:

Reserves Category (M$)	0%	5%	10%	15%	20%
Proved Developed Producing	8,515	7,284	6,411	5,761	5,259
Proved Developed Non-Producing	768	631	538	471	421
Proved Undeveloped	694	640	593	552	515
Total Proved	9,977	8,555	7,542	6,784	6,195
Probable Additional	3,252	2,271	1,705	1,348	1,106
Total Proved Plus Probable	13,229	10,826	9,247	8,132	7,301

In determining the above valuation, estimated future cash flows are stated before the deduction of income taxes and indirect costs but after the deduction of royalties, minimum capital expenditures and operating costs which are assumed to increase at the rate of 2% per year. The following commodity price forecast was applied in determining the future cash flows:

	Oil			Natural Gas
	WTI	Edmonton Par	Heavy 12° API	AECO-C
	($US/bbl)	($Cdn/bbl)	($Cdn/bbl)	($Cdn/MMBtu)
2005	$ 42.00	$ 50.22	$ 30.72	$ 6.78
2006	40.00	47.76	29.76	6.52
2007	37.50	44.69	28.69	6.26
2008	35.00	41.62	27.62	6.00
2009	33.00	39.16	25.00	5.73
2010 and thereafter, values escalated by the following amounts each year	$ 0.50	$ 0.59	$ 0.42	2%

management's discussion & analysis

Years ended December 31, 2004 and 2003

The following is management's discussion and analysis ("MD&A") of the financial results of The Buffalo Oil Corporation (the "Corporation") for the years ended December 31, 2004 and 2003 and the outlook for the Corporation based on information available as at April 27, 2005. This MD&A should be read in conjunction with the Corporation's audited financial statements and accompanying notes for the years ended December 31, 2004 and 2003. Per barrel of oil equivalent ("boe") information has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1)

The MD&A contains the term "cash flow from operations" which is calculated by adding non-cash items (stock based compensation expense and depletion, depreciation and accretion) to losses for the period. "Cash flow from operations" does not form part of generally accepted accounting principles and therefore may not be comparable to similar benchmarks presented by issuers outside the oil and gas industry.

The MD&A contains forward-looking statements which reflect management's expectations regarding the Corporation's growth, results of operations, performance and business prospects and opportunities and are based on current expectations. Because of the nature of forward-looking statements, they involve inherent risks and uncertainties, and therefore actual results could differ materially from those anticipated.

Description of Business

The Corporation is engaged in the acquisition, exploration, development and production of oil and natural gas from properties in Alberta and Saskatchewan in accordance with its strategy to pursue oil and gas development in western Canada, possibly in partnership with other companies.

On December 17, 2004 the shareholders of both Fogo Resources Inc. ("Fogo") and Buffalo Oil Company Limited ("Buffalo") approved an amalgamation of the companies. The Fogo shareholders exchanged their Fogo common shares for class "A" common shares of Buffalo and Fogo was amalgamated with a wholly owned subsidiary of Buffalo. At the time, Buffalo was a company that traded on the TSX Venture Exchange. The transaction was accounted for as an acquisition of the net assets of Buffalo by Fogo, which is deemed the acquirer for accounting purposes. On December 31, 2004 the name of the Corporation was changed to The Buffalo Oil Corporation. As a consequence, the Corporation became a publicly traded company on the TSX Venture Exchange.

Results of Operations

For the year ended December 31	**2004**	2003	% Change
Revenue	$ 3,028,470	$ 2,776,348	9
Net loss	(565,644)	(1,135,750)	(50)
Loss per share – basic and diluted	(0.08)	(0.17)	(53)
Cash flow from operations	1,343,876	1,327,593	1
Cash flow from operations per share – basic	0.20	0.20	0
Cash flow from operations per share – diluted	0.17	0.16	6
Total assets	9,381,463	5,465,522	72
Net working capital (deficit)	$ (1,457,182)	$ (17,860)	8,059

Production

For the year ended December 31	**2004**	2003	% Change
Average daily production			
Oil & NGL's (Bbls/d)	57	34	68
Natural gas (Mcf/d)	845	897	(6)
Barrels of oil equivalent (Boe/d)	198	183	8

Average production for the year ended December 31, 2004 increased by 8% to 198 barrels of oil equivalent per day ("boe/d"), the result of new oil production which more than offset the natural production declines. New oil wells at Frog Lake, Alberta accounted for the 68% increase in production of oil and NGL's compared with 2003. New gas wells at Frog Lake and in the Peace River Arch of Alberta, all of which began production operations late in the 2004, somewhat offset the normal declines in natural gas production. Mainly as a consequence of the Corporation's new wells at Frog Lake, the mix of oil and gas production changed from 81% natural gas in 2003 to 71% in 2004.

Revenue

For the year ended December 31	**2004**	2003	% Change
Average realized selling prices			
Oil & NGL's	$ 40.30	$ 37.55	7
Natural gas	$ 7.07	$ 7.06	0
Barrels of oil equivalent	$ 41.80	$ 41.46	1

World oil prices trended upwards during 2004 and provided the Corporation with a 7% increase in average realized oil selling prices. As a consequence of the increase in production and selling prices, oil and gas revenue increased 9% to $3,028,470 in 2004 from $2,776,348 in 2003.

Royalty expense

In 2004, royalty expense increased by $43,193 to $467,723. This represents a 2% increase from $6.34 per boe in 2003 to $6.46 per boe in 2004. The increase mainly reflects the royalty rates payable on production from the Corporation's new oil wells where sliding scale royalty rates result in younger, more prolific wells, paying royalties based on a higher percentage of the revenue. The Corporation is not eligible for Alberta Royalty Tax Credit ("ARTC") as its wells were either acquired from "over-limit" companies or were drilled on non-eligible lands leased from Indian Oil and Gas Canada. In 2003, the Corporation sold its last remaining property which had been eligible for ARTC. As a percentage of petroleum and natural gas revenue, 2004 royalty expense remained relatively constant with 2003 at 15%.

Production and transportation costs

During 2004 the Corporation changed its accounting policy to include product transportation charges to the point of sale as part of revenue and as an expense. Amounts previously reported for the year ended 2003 were restated. In 2004, transportation totalled $65,940 compared with $78,199 in 2003. Production and transportation costs totalled $658,964 for the year ended December 31, 2004, a marginal increase over the 2003 total of $648,290. On a unit basis, production and transportation costs decreased 6% from $9.68 per boe in 2003 to $9.10 per boe in 2004. The Corporation is forecasting production and transportation costs to remain at the 2004 levels in 2005.


Operating netback

The Corporation's operating netback was $26.25 per boe for the year ended December 31, 2004 compared with $25.44 per boe for 2003, primarily due to increased oil prices and lower production and transportation costs.

General and administrative expenses

For the year ended December 31	**2004**	2003	% Change
General and administrative expense	$ 1,513,843	$ 580,300	161
Overhead recoveries from partners	(75,944)	(46,000)	65
Capitalized to property and equipment	(134,373)	(168,924)	(20)
Total	$ 1,303,526	$ 365,376	257

The increase in 2004 mainly reflects the expensing of stock based compensation totaling $793,724, employee termination costs of $84,000 and increases in professional fees. The stock based compensation expense is a non cash amount determined by fair valuing the options that were outstanding during the period. The reverse takeover of Buffalo by Fogo on December 17, 2004 gave rise to a re-determination of the fair value of all options that had previously been granted. The fair value of all options was determined assuming no dividends will be paid on the underlying common shares, a risk free interest rate of 5.25%, stock volatility of 27% and a market trading price of the underlying shares of $1.35 per share (after the one-for-five share consolidation). The new fair value, less amounts previously expensed, of stock based compensation in respect of options granted to employees is expensed to the extent that the options have vested, with offsetting amounts being recorded as contributed surplus. The fair value applicable to unvested options is expensed over the remaining vesting period. In 2004, the amount of $10,223 was recorded in respect of options issued pursuant to the Fogo Stock Option Plan, $122,960 in respect of Founders' options and $660,541 in respect of Performance options. By December 31, 2004, the Corporation had five staff on a full-time basis and an additional four part-time staff members.

Depletion, depreciation and accretion

Depletion and depreciation decreased dramatically from $2,719,201 in 2003 to $1,075,957 in 2004. The ceiling test conducted at December 31, 2003 resulted in a write down of the property and equipment assets in the amount of $1,500,000. In 2004, depletion and depreciation expense was $16.07 per boe. The Corporation recorded an expense for the accretion of asset retirement obligations in the amount of $71,663 (2003 – $14,195). The increase in this charge reflects changes in the expected cost and timing of the retirement of wells and related production equipment.

Income taxes

The Corporation anticipates paying current taxes of $26,401 in respect of 2004 operations and prior period assessments, and had made installment payments totalling in excess of this amount at December 31, 2004 (2003 – recovery of $57,638). The Corporation recorded a future tax recovery of $31,824 in 2004, mainly reflecting the reduction in legislated tax rates applicable to small business corporations in future periods. In 2003, a future tax recovery of $293,907 was recorded as a result of the ceiling test write down.

As a consequence of the reverse takeover of Buffalo on December 17, 2004, the Corporation became a public company for tax purposes on that date. This change was estimated to increase the future tax liability on the balance sheet by $306,444 which has been recorded as an increase in deficit of $329,657 in respect of the operating assets and liabilities and an offsetting increase in share capital of $23,213 in respect of the tax asset related to share issue expenses.

Net earnings and cash flow

For the year ended December 31, 2004 the Corporation recorded a loss of $565,644 or $0.08 per share compared with a loss of $1,135,750 or $0.17 per share in 2003. Cash flow from operations improved marginally from $1,327,593 ($0.20 per share) in 2003 to $1,343,876 ($0.20 per share) in 2004. For purposes of calculating per share amounts, the weighted average basic shares outstanding for the year ended December 31, 2004 were 6,787,765 (2003 – 6,721,343) and the weighted average diluted shares outstanding were 7,703,182 (2003 – 8,131,794). To the extent that the exercise of options would have an anti-dilutive effect on per share amounts, dilution has been ignored.

Capital Expenditures, Acquisitions and Dispositions

The Corporation recorded the following increases in the cost of property and equipment:

For the year ended December 31	**2004**	2003
Land	$ 361,260	$ 1,915
Acquisitions/(Dispositions)	2,736,338	1,533,362
Geological and geophysical	219,454	385,018
Drilling and completions	1,009,056	547,664
Equipment and facilities	369,844	81,417
Asset retirement obligations (policy change)	–	269,868
Other	49,586	80,405
Total	$ 4,745,538	$ 2,899,649

The Corporation was deemed the acquirer of Buffalo by way of a reverse takeover that occurred on December 17, 2004. This acquisition included oil and gas properties and equipment valued at $2,455,510. During 2004, the Corporation also acquired the remaining 25% W.I. in its Westlock property at a cost of $280,828. In 2003, a 25% W.I. was acquired in the same property at a cost of $143,812.

The Corporation was successful in acquiring two sections of Crown land at Cecil, Alberta for $277,904 which, together with land previously held and other swap and farm-in arrangements, has given the Corporation a 55% interest in a five section oil and gas prospect. Expenditures related to geological and geophysical activities were focused on the Corporation's land in the Peace River Arch and Frog Lake areas of Alberta. During 2004, the Corporation drilled six (net 3.3) wells at Frog Lake, Alberta. Well completion activities in 2004 resulted in three oil wells and one gas well. In 2005, the remaining two wells were completed as oil wells. The cost to drill, complete, equip and tie-in these Frog Lake wells was $1,505,613 of which approximately $325,000 was incurred in 2005 on the two wells that were completed after the reporting date. At Gilby, a gas well drilled in 2003 was completed and placed on production during 2004 (net 15%) and artificial lift was added to another gas well (net 30%) for a total cost of $88,497.

In 2003, Fogo acquired Judelle Resources Inc. at a cost of $1,526,984 which included oil and gas property and equipment valued at $1,919,550 and disposed of a gas property at Balsam, Alberta for $530,000. Also in 2003, Fogo drilled and completed an oil well at Gilby, Alberta at a cost of $115,964 (net 15% W.I.), unsuccessfully re-completed a previously abandoned well at Elmworth, Alberta at a cost of $452,770 (100% W.I.), and invested $190,191 on the acquisition, interpretation and evaluation of seismic data over its Frog Lake interests.

Liquidity and Capital Resources

The primary sources of liquidity are cash flows from oil and gas producing activities, bank borrowings and the proceeds of equity issues. The Corporation believes that these sources will be adequate to fund its current commitments and the ongoing capital expenditure program.

For the year ended December 31, 2004, the Corporation generated net cash flow from operations of $1,343,876. This cash inflow, together with increased bank borrowings of $200,000 and $105,000 received upon the exercise of stock options, was used to fund the Corporation's capital expenditure program and an increase in non cash operating working capital which reflects the growth in production and assets. Capital expenditures that were settled in cash during 2004 totalled $1,527,877. In 2003, cash flow from operations was $1,327,593. These funds, together with $1,116,298 which was on hand at the beginning of 2003 were used to fund the cash purchase price of Judelle Resources Inc. in the amount of $1,526,984, to fund the capital expenditure program, net of asset dispositions, in the amount of $710,230, and to repay long term debt of $160,785.

At December 31, 2004, the Corporation had a working capital deficit of $1,457,182 (2003 – deficit of $17,860) which included $510,000 of bank operating line of credit. Subsequent to year-end, the bank renewed its credit facility in the amount of $2,500,000. In 2005 the Corporation issued 4,951,994 common shares for net proceeds of approximately $5,400,000. The receipt of these funds resulted in the Corporation having a working capital surplus and adequate funds to pursue an aggressive 2005 capital expenditure program.

Share Capital

During 2004, 105,000 Fogo common shares were issued as a result of the exercise of stock options at a price of $1.00 per share. As part of the reverse takeover of Buffalo, the shareholders of Fogo exchanged 6,445,890 Fogo common shares for 34,163,217 Buffalo common shares. Following the share exchange, the common shares of Buffalo were consolidated on a one-for-five basis and the Corporation had 8,342,018 shares outstanding at December 31, 2004 (2003 – 6,340,890 Fogo common shares). The amount of $1,065,153 was recorded as the value of share capital issued in this transaction, being the fair value of the Buffalo net assets acquired. The reverse takeover resulted in Fogo becoming a public company and becoming liable for income taxes at higher rates, with the result that share capital increased by $23,213 representing the change in value of the future tax asset in respect of share issue expenses.

The Corporation uses the fair value method of accounting for options issued to directors, officers, employees and consultants. At the date of grant or, as in this case, as a consequence of the acquisition of Buffalo on December 17, 2004, options are fair valued using the Black-Scholes option pricing model. At December 17, 2004, the fair value of all options was determined assuming no dividends are paid on the underlying common shares, a risk free interest rate of 5.25%, stock volatility of 27% and a market trading price of the underlying shares of $1.35 per share (after giving effect to the one-for-five share consolidation). Values computed using the Black-Scholes option pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

At December 31, 2003, Fogo had 150,000 stock options outstanding, exercisable at a price of $1.00 per share. In 2004, Fogo amortized stock compensation expense of $10,223 in respect of these options with an offsetting amount being recorded as contributed surplus. Of these options, 105,000 were exercised during 2004 and the remaining 45,000 were forfeited when the Fogo Stock Option Plan was cancelled at the time of the acquisition of Buffalo.

At the meeting of shareholders held on December 17, 2004, the Corporation approved a New Stock Option plan for directors, officers, employees and consultants that provides for the issuance of options to acquire up to 1,622,032 common shares of the Corporation. Upon the acquisition of Buffalo, the Corporation recognized 128,000 Buffalo stock options which were outstanding at an exercise price of $1.10 per share (after giving effect to the one-for-five share consolidation) and are exercisable until June 17, 2009. Of these stock options, 74,000 were vested on December 17, 2004 and the remainder will vest on June 17, 2005. These stock options were determined to have a fair value of $0.555 each at December 17, 2004 using the Black-Scholes option pricing model for a total of $71,040, of which the amount of $45,810 has been accounted for as consideration for the acquisition of Buffalo, with a corresponding entry to contributed surplus. The remaining $25,230 will be recorded as compensation expense over the remaining vesting period of the options.

In 2002, Fogo issued Founders' options to certain directors and officers for the purchase of 500,000 Fogo common shares at a price of $1.00 per share that were exercisable upon issue and would expire on February 15, 2004. During the year, the terms of these options were amended to lengthen the exercise period to February 15, 2005 and to change the exercise price to $1.20 per Fogo common share. The acquisition of Buffalo on December 17, 2004 increased the 500,000 Founders' options by the exchange ratio of 5.3 Buffalo shares to each Fogo share and the subsequent one-for-five consolidation of Buffalo shares resulted in 530,000 Founders' options outstanding, exercisable at a price of $1.13 per share. At December 17, 2004 the options were determined to have a fair value of $0.232 each using the Black-Scholes option pricing model and the variables listed above. Stock compensation expense of $122,960 was recorded in respect of the changes to the fair valuation of the Founders' options, with an offsetting amount recorded as contributed surplus.

In 2002, Fogo issued Performance options to certain directors and officers for the purchase of up to 1,160,000 Fogo common shares at $0.01 per share which will expire on August 15, 2012. During the year, 464,000 Performance options were cancelled. The acquisition of Buffalo on December 17, 2004 increased the 696,000 remaining Performance options by the exchange ratio of 5.3 Buffalo shares for each Fogo share and the subsequent one-for-five consolidation of Buffalo shares resulted in 737,760 Performance options outstanding, exercisable at a price of $0.01 per share.

The Performance options become exercisable if the net asset value per diluted common share, or if the 30 day average trading price of the Corporation's common shares on the TSX Venture Exchange, meets the following thresholds:

Net asset value or market trading price per share	Exercisable Performance options
$1.50 by August 15, 2005	245,950
$1.75 by August 15, 2006	491,840
$2.00 by August 15, 2007	737,760

Each Performance option was determined to have a fair value of $1.343 at December 17, 2004 using the Black-Scholes option pricing model and the variables listed above, for a total value of $990,812. Stock compensation expense of $ 660,541 was recorded in respect of that portion of the Performance options that became exercisable, with an offsetting amount recorded as contributed surplus. The remainder of the fair value will be expensed over the expected remaining vesting period of the Performance options.

Commitments and Contingencies

The Corporation has an operating lease for its offices in Calgary, Alberta that expires on December 31, 2005. The 2005 annual rental payment is $45,528.

Summary of Quarterly Results

Three months ended	**March 31 2004**	**June 30 2004**	**September 30 2004**	**December 31 2004**
Oil & NGL's (Bbls/d	37	58	83	53
Natural gas (Mcf/d)	868	849	821	842
Oil equivalent (Boe/d)	182	199	220	193
Oil and gas revenue, net	$ 680,409	$ 767,977	$ 842,180	$ 737,904
Cash flow from operations	300,658	312,010	365,146	366,062
Cash flow from operations per share – basic	0.04	0.05	0.05	0.05
Cash flow from operations per share – diluted (1)	0.04	0.04	0.05	0.05
Net income (loss)	46,557	9,348	74,605	(696,154)
Earnings (loss) per share – basic	0.01	0.00	0.01	(0.10)
Earnings (loss) per share – diluted	0.01	0.00	0.01	(0.10)

Three months ended	March 31 2003	June 30 2003	September 30 2003	December 31 2003
Oil & NGL's (Bbls/d)	38	32	27	39
Natural gas (Mcf/d)	770	876	1,027	911
Oil equivalent (Boe/d)	167	178	199	190
Oil and gas revenue, net	$ 772,110	$ 682,238	$ 687,300	$ 634,700
Cash flow from operations	378,325	318,684	316,933	313,651
Cash flow from operations per share – basic	0.06	0.05	0.05	0.05
Cash flow from operations per share – diluted (1)	0.05	0.04	0.04	0.04
Net income (loss)	141,796	77,183	52,138	(1,406,867)
Earnings (loss) per share – basic	0.02	0.01	0.01	(0.21)
Earnings (loss) per share – diluted	0.02	0.01	0.01	(0.21)

(1) Where the exercise of options would have an anti-dilutive impact on the per share data, it has been assumed that the options would not be exercised.

Related Party Transactions

At the time of the acquisition of Buffalo on December 17, 2004, Fogo and Buffalo were related by virtue of common management and directorship. The acquisition price was negotiated on the basis of fair market value and the whole transaction was approved by the shareholders of both companies.

Certain directors and officers invoice the Corporation through their personal holding companies for the services they provide. These charges have been recorded as general and administrative expenses and total $188,288 for the year ended December 31, 2004 (2003 – $214,000). In addition, the amount of $84,000 was paid to the personal holding company of one director and officer upon the termination of his service contract with the Corporation. At December 31, 2004, the amount of $21,111 (2003 – Nil) was included in Accounts Payable and Accrued Liabilities for invoices owing to certain officers in respect of their services.

Subsequent Events

On January 24, 2005, 318,000 Founders' options were exercised using the "cashless exercise method" as provided in the Founders' option agreement, resulting in the issue of 179,004 common shares for nil proceeds. The remaining 212,000 Founders' options expired unexercised on February 15, 2005.

On February 7, 2005, the Corporation granted 722,000 stock options to directors, officers, employees and consultants, exercisable for a period of 10 years from that date at a price of $1.12 per share. The options vest as to 1/3 immediately and 1/3 on each of the first and second anniversary of the grant date.

On February 22, 2005, 491,840 Performance options became exercisable pursuant to the terms of the Performance option agreement, based on the Corporation's common shares on the TSX Venture Exchange achieving a 30-day average trading price in excess of $1.75 per share. These options have not been exercised.

On March 14, 2005, the Corporation completed a brokered private placement financing of 4,083,334 common shares at a price of $1.20 per share and 689,656 flow-through common shares at a price of $1.45 per share, for gross proceeds of $5,900,000. Share issue expenses are estimated at $500,000 and include the fair value of 310,244 warrants that were issued to the broker, determined using the Black-Scholes option pricing model. The warrants are exercisable at any time before March 11, 2006 of which 265,417 warrants are exercisable at $1.20 per share and 44,827 warrants are exercisable at $1.45 per share. The Corporation has committed to renounce $1,000,000 of Canadian Exploration Expense equivalent tax deductions to the subscribers for the flow-through common shares by March 31, 2006.

Corporate Outlook

The Corporation completed a private placement financing on March 14, 2005 pursuant to which it received gross proceeds of $5,900,000. The proceeds, net of expenses estimated at $500,000, are intended to be invested into the Corporation's 2005 capital expenditure program. In the first quarter 2005, the Corporation drilled one (net 0.25) successful oil well at Frog Lake. The 2005 forecast assumes drilling 33 (net 9.9) wells of which two (net 0.7) wells, one at Cecil in the Peace River Arch area of Alberta and one at Ingoldsby in Saskatchewan, have already been licensed for drilling in the second quarter of 2005.

Business Risks

The oil and gas industry is subject to numerous risks, including commodity prices, interest rates, exchange fluctuations, as well as environmental concerns and the success of future drilling. The Corporation attempts to reduce and manage those risks which are controllable.

Safety and Environmental

Safety and environmental concerns are addressed through a corporate contingency plan and by continued emphasis on complying with environmental regulations.

Contractual Obligations

As part of normal operations, the Corporation is a party to various contractual commitments. Oil sales from production are contracted on a month-to-month evergreen basis and gas sales from production are contracted on an annual basis commencing each November. The Corporation also has a legal obligation to reclaim all lands in which it has a working interest and which are the subject of oil and gas activities. These obligations come due at varying times, dependent upon when economic production ceases and the property is then available for abandonment and reclamation operations.

New Accounting Pronouncements

Stock based compensation

The Canadian Institute of Chartered Accountants ("CICA") amended section 3870 of the CICA Handbook "Stock based compensation and other stock based payments", effective for fiscal years beginning after December 31, 2003. The Corporation elected to adopt on a prospective basis the fair-value method of accounting for stock options as recommended in the amended section 3870 for the year ended December 31, 2003. Under this method the Corporation recognizes stock compensation expense based on the estimated fair value of the option on the date of grant, which is determined using the Black-Scholes option-pricing model. The fair value of the options is recorded as stock compensation expense over the vesting period of the options with an offsetting amount as contributed surplus. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded is credited to share capital. No stock compensation expense is recorded for stock options granted and outstanding prior to January 1, 2003.

Asset retirement obligations

The CICA issued Handbook Section 3110 "Asset Retirement Obligations" for application to fiscal years beginning after January 1, 2004. The Corporation early-adopted this recommendation effective for the year ended December 31, 2003. This recommendation replaced the previous method of accounting for site restoration costs on an accrual basis. Under the new standard, the liability for the fair value of environmental and site restoration obligations is recorded when the obligations are incurred, normally at the time that related assets are placed on production. The fair value of the obligations is based on the estimated cost to settle the obligations at the time of retirement of the assets, discounted using the Government of Canada Bond Rate for the applicable term to retirement, adjusted for the Corporation's credit rating. The fair value of the obligations is initially recorded as a liability and an increase in the capitalized cost of the related asset. The liability is accreted for increases in the fair value of the obligation with the offsetting amount recorded as an expense.

Oil and gas accounting – full cost

In 2003, CICA Accounting Guideline 16 "Oil and Gas Accounting – Full Cost" was issued to replace CICA Accounting Guideline 5. The new guideline amends the ceiling test calculation applied by the Corporation to its oil and gas assets. AcG-16 is effective for fiscal years beginning on or after January 1, 2004. The Corporation early-adopted this guideline in 2003 and recorded a ceiling test write down of $1,500,000 at December 31, 2003. Under the previous method of performing the ceiling test, it was determined that the ceiling test write down at December 31, 2003 would have been $1,400,000.

Transportation expenses

The Corporation adopted the CICA Handbook Section 1100 "Generally Accepted Accounting Principles", the most significant impact of which is the elimination of looking to industry practice in areas where Canadian GAAP is silent and instead, applying the guidance provided by other accounting bodies. In prior years, it had been industry practice to net transportation charges against revenue rather than recording transportation as an expense. Effective January 1, 2004, the Corporation has recorded revenue before the deduction of transportation charges and an offsetting expense. Prior periods have been restated for comparative purposes. This adjustment has no impact on net income or cash flow.

Continuous disclosure obligations

Effective March 31, 2004, the Corporation was subject to new disclosure requirements as set forth in National Instrument 51-102 "Continuous Disclosure Obligations". This new instrument is effective for fiscal years beginning on or after January 1, 2004. The instrument provides for shorter reporting periods and enhanced disclosure for annual and interim financial statements and MD&A. Under this new instrument, it will no longer be mandatory for the Corporation to mail annual and interim financial statements and MD&A to shareholders. Instead, these documents will be provided on an "as requested" basis.

Other accounting standards issued by the CICA during the year ended December 31, 2004 are not expected to materially impact the Corporation.

management's report to shareholders

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected. The financial statements have been prepared using policies and procedures established by management and reflect fairly the financial position, results of operations and cash flows of The Buffalo Oil Corporation.

Management has established and maintains a system of internal controls which are designed to ensure that financial information is reliable and accurate and to provide assurance that assets are safeguarded from loss or unauthorized use.

Deloitte & Touche LLP, independent auditors appointed by the shareholders, have examined the consolidated financial statements and Paddock Lindstrom & Associates Ltd. have reviewed the Corporation's oil and gas reserves. Their examination provides an independent view as to the amounts and disclosures in the financial statements.

The Board of Directors has reviewed in detail the financial statements with management and the external auditors. The Board of Directors has approved the financial statements as presented in this annual report.

William A. Trickett
Chairman and Chief Executive Officer

Trevor G. Penford
President and Chief Financial Officer

auditors' report

To the Shareholders of The Buffalo Oil Corporation

We have audited the consolidated balance sheet of The Buffalo Oil Corporation (the "Company") as at December 31, 2004 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2003 were reported upon by another firm of Chartered Accountants who expressed an opinion without reservation in their auditors' report dated May 10, 2004.

Calgary, Alberta
April 8, 2005

Deloitte & Touche LLP
Chartered Accountants

consolidated balance sheets

As at December 31		**2004**		2003 (NOTE 1)
Assets				
Current Assets				
Cash and cash equivalents	$	17,986	$	92,813
Accounts receivable		617,048		325,390
Income tax receivable		21,744		–
Deposits and prepaid expenses		34,460		26,676
		691,238		444,879
Property and equipment (NOTES 4 & 5)		8,690,225		5,020,643
Total Assets	$	9,381,463	$	5,465,522
Liabilities and Shareholders' Equity				
Current Liabilities				
Bank indebtedness	$	42,374	$	–
Accounts payable and accrued liabilities		1,596,046		363,344
Income taxes payable		–		24,395
Bank loan (NOTE 6)		510,000		75,000
		2,148,420		462,739
Asset retirement obligations (NOTE 7)		1,030,207		297,514
Future income taxes (NOTE 9)		624,061		259,524
		3,802,688		1,019,777
Commitments and Contingencies (NOTE 11)				
Subsequent Events (NOTE 13)				
Shareholders' Equity				
Share capital (NOTE 8)		6,854,334		5,641,683
Contributed surplus (NOTE 8)		839,534		23,854
Deficit		(2,115,093)		(1,219,792)
		5,578,775		4,445,745
Total Liabilities and Shareholders' Equity	$	9,381,463	$	5,465,522

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Approved on behalf of the Board of Directors

William A. Trickett
Director

H. Douglas Hunter
Director

consolidated statements of operations and deficit

Year ended	2004	2003 (NOTE 1)
Revenue		
Petroleum and natural gas sales	$ 3,028,470	$ 2,776,348
Less: Royalties, net of Alberta Royalty Tax Credits	467,723	424,530
Net petroleum and natural gas revenue	2,560,747	2,351,818
Expenses		
Production and transportation costs	658,964	648,290
General and administrative	1,303,526	365,376
Bank interest	21,704	16,630
Depletion and depreciation	1,075,957	2,719,201
Accretion of asset retirement obligations	71,663	14,195
	3,131,814	3,763,692
Loss before income taxes	(571,067)	(1,411,874)
Income taxes (NOTE 9)		
Current	26,401	17,783
Future	(31,824)	(293,907)
	(5,423)	(276,124)
Net loss	(565,644)	(1,135,750)
Deficit, beginning of year:		
As previously reported	(1,219,792)	(57,638)
Change in accounting policy (NOTE 3)	–	(26,404)
Change in future income tax rate (NOTE 4)	(329,657)	–
As restated	(1,549,449)	(84,042)
Deficit, end of year	$ (2,115,093)	$ (1,219,792)
Loss per share – Basic and diluted	$ 0.08	$ 0.17
Weighted average basic common shares outstanding	6,787,765	6,721,343

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

consolidated statements of cash flows

Year ended	2004	2003 (NOTE 1)
Operating Activities		
Net loss	$ (565,644)	$ (1,135,750)
Add (deduct) items not affecting cash:		
Depreciation and depletion	1,075,957	2,719,201
Accretion of asset retirement obligations	71,663	14,195
Stock compensation	793,724	23,854
Future income taxes	(31,824)	(293,907)
Funds flow from operations	1,343,876	1,327,593
Asset retirement expenditures	(1,850)	–
(Increase) decrease in non-cash working capital	(236,350)	9,352
	1,105,676	1,336,945
Financing Activities		
Common shares issued, net of expenses	105,000	(695)
Bank loan advances, net	200,000	75,000
Long-term debt repaid	–	(160,785)
	305,000	(86,480)
Investing Activities		
Expenditures on oil and gas property and equipment	(2,196,450)	(1,285,230)
Acquisition of company, net of bank indebtedness (NOTE 4)	(404,614)	(1,526,984)
Disposition of petroleum and natural gas properties	–	575,000
(Increase) decrease in non-cash working capital	1,073,187	(36,736)
	(1,527,877)	(2,273,950)
Net cash inflow (outflow) for the year	(117,201)	(1,023,485)
Cash and cash equivalents, beginning of year	92,813	1,116,298
Cash and cash equivalents (bank indebtedness), end of year	$ (24,388)	$ 92,813
Cash and cash equivalents comprises:		
Cash and cash equivalents	$ 17,986	$ 92,813
Bank indebtedness	(42,374)	–
	$ (24,388)	$ 92,813
Supplementary Information		
Income taxes paid in cash	$ 40,086	$ 39,123
Interest paid in cash	$ 22,138	$ 29,810

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

notes to the consolidated financial statements

December 31, 2004

1. Nature of the Business

The Buffalo Oil Corporation (the "Corporation") is incorporated under the laws of Alberta and listed on the TSX Venture Exchange.

On December 17, 2004 the shareholders of Fogo Resources Inc. ("Fogo") approved the amalgamation with Buffalo Oil Company Limited ("Buffalo"). The Fogo shareholders exchanged their Fogo common shares for class "A" common shares of Buffalo Oil Company Limited ("Buffalo") and Fogo was amalgamated with a wholly owned subsidiary of Buffalo. At the time, Buffalo was a company that traded on the TSX Venture Exchange. The transaction has been accounted for as an acquisition of the net assets of Buffalo by Fogo, which is deemed the acquirer for accounting purposes. The results of operations and cash flows of Buffalo have been included only from the date of acquisition by Fogo. Comparatives as at and for the year ended December 31, 2003 in t he Consolidated Balance Sheets, the Consolidated Statements of Operations and Deficit and the Consolidated Statements of Cash Flows reflect the operations of Fogo. On December 31, 2004 the name of the Corporation was changed to The Buffalo Oil Corporation.

The Corporation is engaged in the exploration, development, acquisition and production of petroleum and natural gas in western Canada.

2. Summary of Significant Accounting Policies

a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiary, consolidated from the date of acquisition. All significant inter-company transactions have been eliminated.

b) Petroleum and natural gas properties and equipment

i) Capitalized Costs

The Corporation follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized in a Canadian cost centre and charged against income as set out below. Such costs may include land acquisition costs, geological and geophysical expenses, lease rentals and other costs of maintaining non-producing properties, costs of drilling both productive and non-productive wells, production equipment costs, estimated asset retirement costs and overhead charges directly related to all these activities. These costs along with estimated future capital costs in the current reserves report related to the development of proved reserves, net of estimated salvage values are included in the depletion calculation. Proceeds from the disposition of properties are applied against capitalized costs except where this application would change the depletion and depreciation rate by more than 20%, in which case, the gain or loss arising on the disposition is included in earnings.

ii) Depletion and Depreciation

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated net proved petroleum and natural gas reserves before the deduction of royalties, as determined by the Corporation's independent reservoir engineers. For depletion and depreciation purposes, volumes of natural gas production and reserves are converted to equivalent oil units at a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties may be excluded from depletion and depreciation calculations until it is determined whether proved reserves are attributable to the properties or impairment has occurred. Unproved properties are assessed periodically to ascertain whether impairment has occurred.

Furniture and equipment is depreciated over the estimated useful lives of the assets using the straight-line method at the rate of 25% per annum.

iii) Impairment Test

The net carrying value of the Corporation's petroleum and natural gas properties in each cost centre are tested for impairment through the use of the ceiling test and an impairment loss is recognized if the carrying amount is considered to be not recoverable and also exceeds the cost centre's fair value. The carrying amount is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected from the disposition of the cost centre's proved reserves. The fair value of the cost centre is estimated using the discounted present value of expected future cash flows from the sale of proved and probable additional reserves. Any impairment loss is charged to earnings as depletion and depreciation expense.

c) Asset retirement obligations

Liabilities for the fair value of environmental and site restoration obligations are recorded when the obligations are incurred and the fair value can be reasonably estimated, normally at the time that the related assets are developed. The fair value of the obligations is based on the estimated cash flow required to settle the obligations, discounted using the risk adjusted rate for the applicable term. At that time, the fair value of the obligations is recorded as a liability and an increase in capitalized costs. The liability is accreted periodically for the increase in fair value of the obligations due to the passage of time. The accretion expense is charged to earnings.

d) Joint ventures

A portion of the Corporation's petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

e) Revenue recognition

Petroleum and natural gas sales are recognized when the product is shipped and ownership transfers.

f) Earnings per share

Basic earnings per share is determined based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by applying the treasury stock method to the exercise of outstanding stock options and share purchase warrants, except to the extent that the inclusion of these items would be anti-dilutive.

g) Future income taxes

The Corporation records future income taxes on the liability method of tax accounting. Under this method, future tax assets and liabilities are determined based on the temporary differences between the carrying values of assets and liabilities and their tax basis. Effects of changes in tax laws and tax rates are recognized when substantially enacted. Future income tax expense (recovery) is computed based on the change in the balance sheet values of future tax assets and liabilities during the period.

h) Financial instruments

The fair market value of financial instruments, consisting primarily of cash and cash equivalents, accounts receivable, income tax receivable, deposits, accounts payable and accrued liabilities, income tax payable and the bank loan approximate their carrying value because of the short term to maturity.

i) Measurement uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and asset retirement obligations are based on estimates of reserves and future costs. By their nature, these estimates, and those related to the future cash flows used to assess impairment, could differ from actual results and impact the financial statements of future periods.

j) Flow-through shares

Resource expenditure deductions for income tax purposes that arise from exploration and development activities and which have been funded by flow-through share arrangements, are renounced to investors in accordance with income tax legislation. A future income tax liability is recorded and share capital is reduced by the estimated tax benefits that have been transferred to shareholders at the time such tax credits are renounced by the Corporation.

k) Stock based compensation

The Corporation recognizes stock compensation expense based on the estimated fair value of the option on the date of grant, which is determined using the Black-Scholes option pricing model. The fair values of options granted to an employee are deferred and recognized as compensation expense over the vesting period of the options, with a corresponding increase in contributed surplus. Compensation expense is included in general and administrative expense. The fair value of options granted to non employees is recorded as an increase in the cost of the service being provided at the date of grant and is adjusted to fair value at each reporting date until the instrument vests, with corresponding amounts being recorded in contributed surplus.

Consideration paid to the Corporation upon the exercise of options is recorded as an increase in share capital. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded is credited to share capital.

3. Changes in Accounting Policies

a) Oil and gas transportation

Effective January 1, 2004, the Corporation adopted the CICA Handbook Section 1100 "Generally Accepted Accounting Principles" which defines the source of GAAP that companies must use and effectively eliminates industry practice as a source of GAAP. In prior years, it had been industry practice for companies to net transportation charges against revenue rather than showing transportation as a separate expense in the statement of operations. Beginning January 1, 2004, the Company recorded revenue before the deduction of transportation charges with the offset as an increase in production and transportation expense in the statement of operations. Prior periods have been restated for comparative purposes. This change has no impact on the net loss, net loss per share or cash flow previously reported.

b) Asset retirement obligations

Effective January 1, 2003, the Corporation early-adopted the CICA Handbook Section 3110, "Asset Retirement Obligations" relating to accounting for asset retirement obligations and related costs. This change had the effect of increasing the deficit at January 1, 2003 by $26,404, reflecting the cumulative impact of changes in depletion and future income tax expense, the addition of accretion expense and the reversal of the provision for site restoration.

c) Stock based compensation

Effective January 1, 2003, Fogo prospectively adopted the fair value method of accounting for stock options that were granted subsequent to January 1, 2003 (CICA Handbook Section 3870 "Stock Based Compensation and Other Stock-Based Payments"). This change had no impact on the deficit at January 1, 2003.

d) Oil and gas accounting – full cost

Effective January 1, 2003, the CICA full cost accounting guideline for the oil and gas industry (AcG 16 – "Oil and Gas Accounting Full Cost") was early adopted by the Corporation. The adoption of this guideline had no impact on these financial statements.

4. Acquisition of Buffalo Oil Company Limited

In April 2004, Fogo acquired 8% of the issued and outstanding shares of Buffalo. On December 17, 2004, Fogo amalgamated with a wholly-owned subsidiary of Buffalo through the exchange of all the Fogo common shares for 34,163,217 Buffalo common shares. At the time, the Performance options and Founders' options that had previously been issued by Fogo, were restated for the issue of Buffalo common shares in accordance with the share exchange ratio (notes 8cii and 8ciii). The acquisition has been accounted for as a reverse takeover of Buffalo by Fogo as follows:

i) The financial statements of the combined entities are presented as a continuation of the financial statements of Fogo;

ii) As Fogo is the acquirer for accounting purposes, its assets and liabilities are included in the financial statements at their carrying values;

iii) Existing Buffalo stock options were adopted by the Corporation; and

iv) The results of Buffalo's operations have been included in the financial statements only from the date of the acquisition of control by Fogo on December 17, 2004. For purposes of this transaction, consideration has been determined by the fair values of the net assets acquired and has been ascribed to the 7,546,875 common shares of Buffalo which were outstanding on December 17, 2004.

Consideration paid and values assigned to the net assets of Buffalo are as follows:

Consideration		
Cash paid	$	362,240
Bank indebtedness assumed		42,374
Buffalo stock options adopted		45,810
Common shares issued		1,065,153
	$	1,515,577
Net assets acquired		
Oil and gas property and equipment	$	2,455,510
Asset retirement obligations assumed		(578,391)
Net working capital deficit, excluding bank indebtedness		(285,283)
Future tax liability recorded on increase in values of net assets acquired		(76,259)
	$	1,515,577

The Corporation incurred reorganization costs related to this transaction totalling $201,688 which are included in the consideration paid in cash of $362,240.

5. Property and Equipment

As at December 31, 2004	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties and equipment	$ 13,281,048	$ 4,616,365	$ 8,664,683
Office equipment	55,195	29,653	25,542
	$ 13,336,243	$ 4,646,018	$ 8,690,225

As at December 31, 2003	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties and equipment	$ 8,540,992	$ 3,553,506	$ 4,987,486
Office equipment	49,713	16,556	33,157
	$ 8,590,705	$ 3,570,062	$ 5,020,643

During 2004, general and administrative expenses relating to exploration and development activities totalling $134,373 (2003 – $168,924) were capitalized. At December 31, 2004, costs relating to unproven properties totalling $1,022,649 (2003 – $316,599) have been excluded from costs subject to depletion and depreciation.

The Corporation applied an impairment test to capitalized costs of petroleum and natural gas properties at December 31, 2004 to determine whether such costs may be recovered in the future. Capitalized costs were compared to estimated future cash flows from production of oil and natural gas reserves plus the cost (net of impairment) of unproved properties. Commodity prices used in the determination of cash flows were based on the following quoted benchmark prices adjusted for quality and transportation differentials:

	Oil WTI (US$bbl)	Oil Edmonton Par (Cdn$/bbl)	Natural Gas AECO-C (Cdn$MMBtu)
2005	$ 42.00	$ 50.22	$ 6.78
2006	40.00	47.76	6.52
2007	37.50	44.69	6.26
2008	35.00	41.62	6.00
2009	33.00	39.16	5.73
2010 and thereafter, values escalated by the following amounts each year	$ 0.50	$ 0.59	2%

No impairment of capitalized costs was determined as a result of the impairment test at December 31, 2004. At December 31, 2003, capitalized costs were determined to have been impaired in the amount of $1,500,000 and this amount was included in depletion and depreciation expense for the year ended December 31, 2003.

6. Bank Loan

At December 31, 2004, the Corporation had a bank credit facility that provided for an operating demand line of credit of $1,650,000. The credit facility was with a Canadian chartered bank and was secured by a $5 million floating charge debenture over all the Corporation's assets and a general security agreement. The facility bore interest at the rate of 1.0% above the bank's prime lending rate. At December 31, 2004, $275,000 had been drawn against this facility (2003 – $75,000). At December 31, 2004, the Corporation had a second credit facility that provided for an operating demand line of credit of $400,000. The credit facility was with another Canadian chartered bank and was secured by a general security agreement. The facility bore interest at the rate of 1.5% above the bank's prime lending rate. At December 31, 2004, $235,000 had been drawn against this facility (2003 – $nil).

Subsequent to December 31, 2004, the Corporation consolidated its bank credit facilities and now has an operating demand line of credit of $2,500,000 which bears interest at 0.75% above the bank's prime lending rate. The facility continues to be secured by a $5 million floating charge debenture over all the Corporation's assets and a general security agreement.

7. Asset Retirement Obligations

The Corporation's asset retirement obligations are based on its net ownership interest in wells and facilities and management's estimate of the costs to abandon and reclaim those wells and facilities, as well as an estimate of the future timing of the costs to be incurred.

At December 31, 2004 the estimated net present value of the Corporation's total asset retirement obligations was $1,030,207 (2003 – $297,514) based on total future liabilities of $1,608,000 (2003 – $502,000). Payments to settle asset retirement obligations occur over the operating lives of the assets, estimated to be from two to 20 years. The calculation of total future liabilities assumes an inflation rate of 2% per annum in future years. Net present value has been estimated using cash flows discounted at the Corporation's credit-adjusted risk free rate of 7%.

December 31,	**2004**	2003
Balance, beginning of year	$ 297,514	$ 244,870
Liabilities incurred	84,489	38,449
Liabilities acquired	578,391	–
Asset retirement expenditures	(1,850)	–
Accretion expense	71,663	14,195
Balance, end of year	$ 1,030,207	$ 297,514

8. Share Capital

As described in note 4, Fogo acquired Buffalo effective December 17, 2004. The amount of share capital of the Corporation was derived from the existing share capital of Fogo plus an assigned amount in respect of the acquired net assets of Buffalo. The number of shares of the Corporation was derived from the number of Buffalo common shares issued and outstanding, plus the number of common shares issued to the former shareholders of Fogo.

a) Authorized

Common Shares – unlimited number of Class "A" shares without par value

b) Common shares issued

	Number of Shares	Amount
Buffalo Oil Company Limited		
Balance – December 31, 2003 and 2002	7,146,875	$ 1,104,293
Stock options exercised	400,000	40,000
Balance prior to the acquisition (NOTE 4)	7,546,875	1,144,293
Fogo Resources Inc.		
Balance – December 31, 2002	6,340,890	5,755,444
Tax benefits renounced on flow through shares issued		(109,350)
Share issue costs		(4,411)
Balance – December 31, 2003	6,340,890	5,641,683
Stock options exercised	105,000	128,854
Share issue expenses	–	(4,569)
	6,445,890	5,765,968
Total	13,992,765	6,910,261
Adjustment on acquisition (NOTE 4)	(6,445,890)	(1,144,293)
	7,546,875	5,765,968
Shares issued to effect acquisition (NOTE 4)	34,163,217	1,065,153
Change in future tax on share issue expenses	–	23,213
	41,710,092	6,854,334
Consolidation of common shares on the basis of one for five shares issued	(33,368,074)	–
Balance – December 31, 2004	8,342,018	$ 6,854,334

c) Options and warrants to acquire shares

Accounting for stock based compensation

The Corporation uses the fair value method of accounting for options issued to directors, officers, employees and consultants. At the date of grant, upon the amendment of the terms or, as in this case, as a consequence of the acquisition of Buffalo on December 17, 2004, options are fair valued using the Black-Scholes option pricing model. At December 17, 2004, the fair value of all options listed below was determined assuming no dividends are paid on the underlying common shares, a risk free interest rate of 5.25%, stock volatility of 27% and a market trading price of the underlying shares of $1.35 per share (after the one-for-five share consolidation). Values computed using the Black-Scholes option pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

i) Stock options

At December 31, 2003, Fogo had 150,000 stock options outstanding, exercisable at a price of $1.00 per share. In 2004, Fogo amortized stock compensation expense of $10,223 in respect of these options with an offsetting amount being recorded as contributed surplus. Of these options, 105,000 were exercised during 2004 and the remaining 45,000 were forfeited when the Fogo Stock Option Plan was cancelled at the time of the acquisition of Buffalo. $23,854 was transferred from contributed surplus to share capital in respect of the exercised stock options.

At the meeting of shareholders held on December 17, 2004, the Corporation approved a New Stock Option plan for directors, officers, employees and consultants that provides for the issuance of options to acquire up to 1,622,032 common shares of the Corporation. Upon the acquisition of Buffalo, the Corporation recognized 128,000 Buffalo stock options which were outstanding at an exercise price of $1.10 per share and are exercisable until June 17, 2004. Of these stock options, 74,000 were vested on December 17, 2004 and the remainder will vest on June 17, 2005. These stock options were determined to have a fair value of $0.555 each at December 17, 2004 using the Black-Scholes option pricing model for a total of $71,040 of which the amount of $45,810 has been accounted for as consideration for the acquisition of Buffalo, with a corresponding entry to contributed surplus. The remaining $25,230 will be recorded as compensation expense over the remaining vesting period of the options.

The following table summarizes the continuity of stock options issued pursuant to the Corporation's Stock Option Plans:

	Number of options	Weighted average exercise price
Fogo Stock Option Plan		
Outstanding, January 1, 2003	–	–
Granted	150,000	$1.00
Outstanding, December 31, 2003	150,000	$1.00
Granted	–	–
Exercised	(105,000)	$1.00
Cancelled	(45,000)	$1.00
Balance, prior to acquisition (NOTE 4)	–	–
New Stock Option Plan		
Adopted on acquisition of Buffalo (NOTE 4)	128,000	$1.10
Outstanding, December 31, 2004	128,000	$1.10

ii) Founders' options

In 2002, Fogo issued Founders' options to employees for the purchase of 500,000 Fogo common shares at a price of $1.00 per share that were exercisable upon issue and would expire on February 15, 2004. During the year, the terms of these options were amended to lengthen the exercise period to February 15, 2005 and to change the exercise price to $1.20 per Fogo common share. The terms of the exchange of Fogo shares for Buffalo shares on December 17, 2004 increased the 500,000 Founders' options by the exchange ratio of 5.3 Buffalo shares to each Fogo share and the subsequent one-for-five consolidation of Buffalo shares resulted in 530,000 Founders' options outstanding, exercisable at a price of $1.13 per share. At December 17, 2004 the options were determined to have a fair value of $0.232 each using the Black-Scholes option pricing model and the variables listed

above. Stock compensation expense of $122,960 was recorded in respect of the changes to the fair value of the Founders' options, with an offsetting amount recorded as contributed surplus. In accordance with the early-adoption of the new accounting policy for Stock Based Compensation effective January 1, 2003, there was no requirement to record stock compensation expense for the Founders' options that were granted prior to January 1, 2003. No pro forma stock compensation expense is applicable to the Founders' options for the years ended December 31, 2004 and 2003 because the Founders' options were fully vested at the time of grant in 2002 and the stock compensation expense would have been recorded in 2002 had the policy been applicable.

iii) Performance Options

In 2002, Fogo issued Performance options to certain employees for the purchase of up to 1,160,000 Fogo common shares at $0.01 per share which will expire on August 15, 2012. During the year, 464,000 Performance options were cancelled. The share exchange terms that resulted in the acquisition of Buffalo on December 17, 2004 increased the 696,000 outstanding Performance options by the exchange ratio of 5.3 Buffalo shares to each Fogo share and the subsequent one-for-five consolidation of Buffalo shares resulted in 737,760 Performance options outstanding, exercisable at a price of $0.01 per share.

The Performance options become exercisable if the net asset value per diluted common share, or if the 30 day average trading price of the Corporation's common shares on the TSX Venture Exchange, meets the following thresholds:

Net asset value or market trading price per share	Exercisable performance options
$1.50 by August 15, 2005	245,950
$1.75 by August 15, 2006	491,840
$2.00 by August 15, 2007	737,760

Each Performance option was determined to have a fair value of $1.343 at December 17, 2004 using the Black-Scholes option pricing model and the variables listed above, for a total value of $990,812. Stock compensation expense of $660,541 was recorded in respect of that portion of the Performance options that are exercisable, with an offsetting amount recorded as contributed surplus. The remainder of the fair value will be expensed over the expected remaining vesting period of the Performance options. In accordance with the early adoption of the new accounting policy for Stock Based Compensation on January 1, 2003, there was no requirement to record stock compensation expense for the Performance options which were granted in 2002. No pro-forma stock compensation expense is applicable for the years ended December 31, 2004 and 2003 because of the uncertainty of the related performance targets being achieved until the terms of the Performance options were amended at the time of the acquisition of Buffalo.

9. Income Taxes

The future income tax liability at December 31, 2004 of $624,061 (2003 – $259,524) was determined using the expected statutory income tax rate of 38.1% (2003 – 18.0%) based on the difference between the income tax values and the values recorded in the books of the following items:

December 31	**2004**	2003
Property and equipment	$ 2,711,900	$ 1,805,256
Share issue expenses	(44,598)	(65,943)
Asset retirement obligations	(1,030,207)	(297,514)
	$ 1,637,095	$ 1,441,799

As a result of the acquisition of Buffalo, the Corporation's tax rate changed from 16.4% to 38.1% as Fogo, the deemed acquirer, ceased to qualify for the lower tax rate applicable to small business corporations (note 4). This change in status was considered part of the capital transaction and resulted in an increase in future tax liability of $306,444 of which $329,657 was charged to deficit and $23,213 was recorded as an increase in share capital.

Income tax expense differs from the amount that would be obtained by applying the statutory income tax rate of 38.62% (2003 – 17.12%) to the loss before income taxes. The principal reasons for the difference between such "expected" income tax recovery and the amount recorded are as follows:

December 31	**2004**	2003
"Expected" income tax recovery	$ (220,546)	$ (241,713)
Non-deductible crown charges	59,618	40,343
Resource allowance	(81,106)	(41,804)
Change in tax rates of future tax liability, net of capitalized portion	(44,252)	(17,819)
Non-deductible stock compensation	308,009	–
Other	(27,146)	(15,131)
	$ (5,423)	$ (276,124)

The Corporation has available the following tax pool balances which may be deducted in determining taxable income of future years. The amounts are deductible annually at the rates indicated:

December 31		**2004**	2003
Canadian oil and gas property expense	10%	$ 2,775,195	$ 2,173,438
Share issue expenses	20%	49,268	65,943
Undepreciated capital cost	25%	1,473,912	972,696
Canadian development expense	30%	1,147,818	62,734
Canadian exploration expense	100%	322,998	–
Non capital losses	100%	233,062	–
Total tax pools		$ 6,002,253	$ 3,274,811

10. Risk Management

The Corporation markets its oil and natural gas production through industry specific marketing companies and also has receivables from joint venture partners in the oil and gas industry. All accounts receivable are subject to internal credit review designed to mitigate the risk of non-payment and, in certain circumstances, the Corporation demands payment in advance.

The bank credit facility bears interest at rates which fluctuate with market conditions.

11. Commitments and Contingencies

The Corporation is committed to a lease for the rental of office space that expires in December 2005. The annual payment for 2005 is $45,528.

The Corporation owns interests in oil and gas properties that are operated by other companies. As such, the Corporation is liable for its proportionate share of costs incurred by that operator. There are no known commitments by these operators for which the Corporation has not recorded its proportionate share of the costs.

12. Related Party Transactions

Fogo and Buffalo were related by virtue of common management and directorship at the time of the acquisition of Buffalo by Fogo on December 17, 2004 (note 4). The acquisition price was negotiated by the parties on the basis of fair market value and the whole transaction was approved by the shareholders of both companies.

Certain directors and officers invoice the Corporation through their personal holding companies for the services they provide. These charges have been recorded as general and administrative expenses and total $188,288 for the year ended December 31, 2004 (2003 – $214,000). In addition, the amount of $84,000 was paid to the personal holding company of one director and officer upon the termination of the service contract between the Corporation and his personal holding company. At December 31, 2004, the amount of $21,111 (2003 – Nil) was included in Accounts Payable and Accrued Liabilities for invoices owing to certain officers in respect of their services.

13. Subsequent Events

On January 24, 2005, 318,000 Founders' options were exercised using the "cashless exercise method" as provided in the Founders' option agreement, resulting in the issue of 179,004 common shares for nil proceeds. The remaining 212,000 Founders' options expired unexercised on February 15, 2005.

On February 7, 2005, the Corporation granted 722,000 stock options to directors, officers, employees and consultants, exercisable for a period of 10 years from that date at a price of $1.12 per share. The options vest as to 1/3 immediately and 1/3 on each of the first and second anniversary of the grant date.

On February 22, 2005, 491,840 Performance options became exercisable as determined by the Performance Option Agreement, based on the 30-day average trading price of the Corporation's common shares on the TSX Venture Exchange.

On March 14, 2005, the Corporation completed a brokered private placement financing of 4,083,334 common shares at a price of $1.20 per share and 689,656 flow-through common shares at a price of $1.45 per share, for gross proceeds of $5,900,000. Share issue expenses are estimated at $500,000 and include the fair value of 310,244 warrants that were issued to the broker. The warrants are exercisable at any time before March 11, 2006 at prices of $1.20 and $1.45 per share. The Corporation has committed to renounce $1,000,000 of Canadian Exploration Expense equivalent tax deductions to the subscribers for the flow-through common shares by March 31, 2006.

corporate information

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Dr. Edward W. Bogle (1)(2)
Vice President, International Portfolio Management, Nexen Inc.

H. Douglas Hunter (1)(2)(3)
Chairman, Viking Energy Royalty Trust

Gregory D. Moore (2)(3)
Vice President, Operations, Shiningbank Energy Income Fund

Richard A. Shaw (1)(3)
Senior Partner, McCarthy Tétrault LLP

(1) Member of the Audit Committee
(2) Member of the Reserves Committee
(3) Member of the Compensation and Governance Committee

Management

William A. Trickett
Chief Executive Officer and Director

Trevor G. Penford
President and Chief Financial Officer

Duane B. Domier
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Stock Exchange Listing

TSX Venture Exchange
BFO

ABBREVIATIONS

bbl	barrel
boe	barrel of oil equivalent on the basis of 1 boe to 6 mcf of natural gas
boe/d	barrels of oil equivalent per day
km	kilometre
Mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
MMbtu	million British Thermal Units
Mmcf	million cubic feet
NGL's	natural gas liquids

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